

BUDGET BRIEFING

THURSDAY, AUGUST 11, 2016; 1:00 P.M.

705 W. University Avenue, Council Auditorium

LUS & Capital and LUS Communications (Fiber Services)

Council members in attendance: Bruce Conque (District 6 – Finance Vice-Chair), Kevin Naquin (District 1), Pat Lewis (District 3), Jared Bellard (District 5), Liz Hebert (District 8), and William Theriot (District 9)

Absent: Kenneth Boudreaux (District 4 – Finance Chair), Jay Castille (District 2), Nanette Cook (District 7)

Administration staff members in attendance: Mayor-President Joel Robideaux, CAO Lowell Duhon, CFO Lorrie Toups, Controller Melinda Felps, Budget Manager Kerney Simoneaux, Chief Budget Analyst Connie Trahan, Financial Analyst Laura Grettner, LUS Director Terry Huval, and staff members representing these and other departments/agencies

Council staff members in attendance: Veronica L. Williams (Clerk of the Council) and Joseph Gordon-Wiltz (Assistant Clerk)

(Compact Disk #3)

(Time 1:00:21) Finance Vice-Chair Bruce Conque called the budget briefing to order. He asked Pat Lewis to offer the invocation and called upon Jared Bellard to lead the Pledge of Allegiance.

Vice-Chair Conque welcomed everyone to today's budget briefing on the proposed Fiscal Year (FY) 2016-2017 budget. Citizens were instructed that a green speaker form should be filled out in order to address the Council and be submitted to Council Clerk Veronica Williams. He stated that the proposed budget document has been posted to the LCG website on the Finance page and that public comment would be held immediately following each department's budget review. Vice-Chair Conque identified the three possible actions that could be taken during the briefings. A Council member may propose changing the budget by: (1) a general amendment, when the entire Council agrees on a recommendation/proposed amendment; (2) a separate amendment, when a Council member objects to a recommended budget change; or (3) a Council member may choose to mark an item for wrap-up discussion to allow time to receive additional information. He also announced that Finance Chair Kenneth Boudreaux, Jay Castille, and Nanette Cook would be unable to attend today's meeting due to previously scheduled business.

Vice-Chair Conque asked for any comments or remarks from the Council as it relates to the budget; however, no comments were offered by the Council. Vice-Chair Conque asked for any comments or remarks from Mayor-President Joel Robideaux and Chief Financial Officer (CFO) Lorrie Toups; however, no comments were offered by the Administration.

LAFAYETTE UTILITES SYSTEM (LUS) & CAPITAL:

(Time: 1:03:39) CFO Toups stated that LUS has an operating budget of \$237 million (which does not include capital). There is a reduction of three (3) positions in this proposed budget and there has been a total increase of 16 positions over the past ten (10) years. She stated that all revenues for LUS come from utility bills.

Vice-Chair Conque deferred to LUS Director Terry Huval for opening statements on the proposed budget for LUS. Mr. Huval began his presentation by discussing the high-level view of LUS operations, highlighting the service quality and the drop in electric rates, making LUS's rates the lowest in the state. He addressed the reliability of service and the addition of new features to serve customers better. Mr. Huval noted that new federal and state requirements have increased, along with operational costs. Regarding personnel strength, he

stated that there has been a reduction of eight (8) personnel since FY 2012-2013. He provided an electric rate comparison of local electric service providers, with LUS boasting the lowest rates. Next, Mr. Huval provided the overall utility bill comparisons of electric, water, and wastewater services between municipalities throughout Louisiana. He provided statistics on the electric power interruptions, with LUS being the entity in the state with the fewest interruptions. Additionally, he provided similar statistics on the length of electric power interruptions, with LUS being the entity in the state with the shortest power interruptions. Mr. Huval spoke of the worth of electric reliability, noting a savings of \$15 million in 2015 to LUS customers. He addressed the System's attempts to remain environmentally focused, exceeding regulatory requirements for water service. Next, Mr. Huval discussed sewer reliability, offering a comparison between Baton Rouge and Lafayette, wherein Lafayette's sewer reliability has proven to be superior. He also noted the superior water reliability of LUS. He referred to LUS joining Midcontinent Independent System Operator (MISO) in 2013 as a strategy to reduce electric costs. Since then, electric costs have been reduced based on statistics. Mr. Huval laid out the important electric capital needs over the next five (5) years, with an overall total electric CIP expenditure of \$165,715,500. He also shared the important water capital needs over the next five (5) years, with an overall total water CIP expenditure of \$15,900,000. Lastly, he provided the important wastewater capital needs over the next five (5) years, with an overall total wastewater CIP expenditure of \$50,805,000. These 5-year capital needs total \$232,420,500. Mr. Huval discussed the proposed changes to the typical residential utilities bill whereby in year 1, there's a 3% increase; in year 2, there's a 4% increase; and, in year 3, there's a 2% increase. He provided the electric cost comparisons with neighboring utilities, demonstrating that LUS is still cheaper than any of the other companies. Mr. Huval discussed the new rate figures that will be inserted into existing rate schedules and the recommendations for changes to late payment charges. He addressed those customers who use solar panels and explained that only 250 of LUS's 67,000 customers use solar panels. It has been determined that those customers have not been paying their proportionate share for LUS reliability, so the new Net Metering rate will address this inequity. Mr. Huval stated that if the proposed rate increase is not approved, the 5-year capital plan will need to be reduced from about \$232 million to \$70 million, the ability to grow will be diminished, and customers in certain areas may continue to experience occasional yellow-tinted water, along with a host of other undesirable impacts on LUS services. He added that history has proven that there is a cost to deferring important utility projects, citing examples from 2004, involving the need for new electric generation units, and from 2010, involving the Acadiana Load Pocket Project. The proposed process is to submit a rate increase ordinance to the Council. Following the last rate change in 2010, there was the Acadiana Pocket Transmission Project in the amount of \$14 million, the Smart Grid Project in the amount of \$20 million, Sewer System Upgrades in the amount of \$9 million, and the La Neuville Substation in the amount of \$6.1 million, along with a number of other large capital improvement that were made possible by the new revenue. Mr. Huval allowed Mr. Tony Georgis of NewGen and Mr. Jerry Trumps with Neel-Schaffer to summarize their roles with LUS. Mr. Huval then asked the Council for any questions.

Mr. Ballard inquired about the Curtis Rodemacher facility and the cost to refurbish it. Mr. Huval stated that it would cost \$1 million to address the outside of the building, not to include the costs of cleaning of the inside of the building, but he noted that the building could ultimately be used for many purposes. Mr. Huval said that LUS does not have any proposals for improvements to building other than to address the blight created by the appearance and condition of the building. Mr. Ballard asked for an estimate for demolishing the building, but Mr. Huval responded that estimates could be anywhere from \$3-5 million. Mr. Ballard expressed his opinion that simply demolishing the building would be his preference so that there could be an approximate \$4 million savings to the citizens of Lafayette or the excess funds could be used to address other needs of the System. He added that he would like to ensure that use of funding derived from any rate increase needs to be carefully prioritized.

Mr. Lewis asked if the Doc Bonin facility is still in operation, to which Mr. Huval responded in the negative, stating that it was last operated in 2013 and that decision to disable its operation was cost-driven. Mr. Huval added that there are other power generating units that are in place, but the minimal activities that remain in existence at the Doc Bonin facility are ancillary; however, there is still a grid at the location of the Doc Bonin facility.

In light of the proposed construction of a generating plant, Vice-Chair Conque questioned the impact on the LUS partnership with CLECO and the Boyce generating plant. Mr. Huval responded that the plant stands on its own and does not have any impact on the construction of new generating plants in Lafayette. Vice-Chair Conque asked about the recent sale of CLECO and whether that will have any impact on the said partnership. Mr. Huval stated that there has been no indication of any forthcoming changes, but LUS is monitoring this situation.

LUS Pro Forma

There was no discussion in this section.

LUS Operating Expenses

Page 223 – William Theriot asked for the actual to-date expenditure for line item 5027010 78000-0 UNINSURED LOSSES. CFO Toups responded that following a budget amendment recently approved by the Council, the actual to-date expenditure was reduced to \$344,000.

Page 226 – Mr. Theriot questioned the increase to line item 5027020 50600-0 TRAINING OF PERSONNEL. Power Plant Superintendent Jamie Webb explained that the increase is due to regulatory training that is required for personnel in the Power Production Section.

Page 227 – Mr. Lewis questioned line item 5027020 69000-71 CONTR SERV-DOC BONIN and requested justification for the \$324,500 proposed expenditure for an inactive plant. Engineering & Power Supply Manager Jeffrey Stewart explained that there are active and inactive systems that still need to be maintained, even though megawatt hours are not generated there.

****WRAP-UP REQUEST BY THERIOT – Provide a list showing the appropriations related to the Doc Bonin facility throughout the budget, as well as information on what is being done with the facility.****

Mr. Theriot questioned line item 5027020 64000-72 EQUIP MAINT-TJ LABBE and its significant proposed percentage increase. Mr. Stewart responded that the increase is due to major generator maintenance that is scheduled for the upcoming year. Mr. Theriot requested the actual to-date expenditure for line item 5027020 70907-0 CONTRACTUAL SERVICES. CFO Toups responded that the actual to-date expenditure is \$202,500. Mr. Stewart added that this line item is for the entire Power Production Section and covers a variety of related expenditures, such as for engineering support, North American Electric Reliability Corporation (NERC) compliance support, and various projects that arise on an as-needed basis. Mr. Huval noted that this line item is not only budgeted for the reasons cited by Mr. Stewart, but also to be able to move forward more immediately with funding certain contractual services that come about as worst-case scenario situations, rather than having to wait on various approvals at the spur of the moment. Mr. Theriot questioned the reduction to line item 5027020 79020-0 PURCHASE POWER-LPPA. Mr. Stewart responded that this line item represents the transactions between LUS and LPPA. He stated that since the unit in Boyce, Louisiana has not been run at as high of an output as in the past due to natural gas prices, there is a reduced purchase amount from LPPA. Additionally, he added that there is a reduction in natural gas prices across the board.

Page 228 – Mr. Theriot questioned the decreases to line items 5027020 79031-0 PURCHASE POWER-MISO and 5027020 79031-80 PURCHASE POWER-MISO SALES. Mr. Stewart explained that these decreases represent the changing market prices, so the LUS forecast for fuel is reduced. CFO Toups clarified that line item 5027020 79031-80 PURCHASE POWER-MISO SALES is a contra-expense account, so the expenses therein

are actually increasing. She added that this line item is a credit to the expense account. Support Services Manager Andrew Duhon stated that on Page 221, the COGS Prod amount proposed for FY 2016-2017 represents a summary of these expenses.

****WRAP-UP REQUEST BY THERIOT – Provide summary and clarification on the relationship between line items 5027020 79020-0 PURCHASE POWER-LPPA, 5027020 79030-0 PURCHASE POWER-OTHER, 5027020 79031-PURCHASE POWER-MISO, and 5027020 79031-80 PURCHASE POWER-MISO SALES.****

****WRAP-UP REQUEST BY BELLARD – Provide actual to-date expenditures for all contractual services line items in Section 7020-Power Production (Page 227).****

Page 231 – Mr. Theriot questioned the increase to line items 5027040 63000-0 EQUIPMENT MAINTENANCE and 5027040 65000-0 GROUNDS MAINTENANCE. Wastewater Operations Manager Craig Gautreaux responded that the increases are due to the costs for the component parts associated with the reworking of the wells. Mr. Theriot questioned the increase to line item 5027040 72600-0 TRANSPORTATION. CFO Toups explained that this increase is attributed to the increase to overhead and maintenance costs.

Mr. Bellard requested an explanation of line item 5027040 89510-0 SPECIAL EQUIPMENT CAPITAL. Budget Manager Kerney Simoneaux responded that these are capital items that are specialized for each Division/Section.

Page 233 – Mr. Theriot questioned the increase to line item 5027065 70907-0 CONTRACTUAL SERVICES. Mr. Gautreaux responded that this is for additional point repairs, videoing, dye testing, and root control of the sewer collection system. He stated that this line item is shared with the LUS Civil Engineering Section in order to obtain contracts. Mr. Theriot requested the actual to-date expenditure for this line item. CFO Toups responded the actual to-date expenditure is \$590,000 and that a budget amendment which was brought before the Council increased the budgeted amount for the current year.

Mr. Lewis questioned line item 5027080 50100-0 TEMPORARY EMPLOYEES. Mr. Stewart responded that this line item is specific to each division based on their requirements. Mr. Huval added that this expenditure is an alternative to hiring full time employees for temporary work.

Page 235 – CFO Toups stated that Section 7083-System Engineering was reorganized and have mostly been transferred to Section 7086-Network Engineering. Mr. Bellard questioned the reasoning for this. Mr. Stewart explained that this was done to create efficiencies, especially due to the similarities in the nature of work between the two impacted Sections.

LUS Five-Year (Multi-Year) Capital

Page 267 – Mr. Bellard questioned line item 79 Pinhook Plant Rehab and its proposed amount of \$903,500. Mr. Stewart responded that this amount is to address soil remediation and to address other environmental concerns on the property. Mr. Bellard asked about the \$5 million budgeted for FY 2020/2021. CFO Toups stated that in this proposed budget, the Council would only be approving the \$903,500 for FY 2016/2017. Mr. Huval added that the \$5 million is simply part of a 5-year plan to address issues with the plant building itself and serves as a placeholder.

****SEPARATE AMENDMENT BY BELLARD** – Remove \$3.5 million from line item 79 Pinhook Plant Rehab in FY 2020/2021 (Page 267), reducing the amount to \$1.5 million. Conque objected.**

Vice-Chair Conque asked that LUS staff be prepared for a discussion on the plans for the Pinhook Plant Rehab project by the time of the Wrap-Up budget briefing.

****WRAP-UP REQUEST BY HEBERT** – Provide information on the basis of the \$5 million estimate for line item 79 Pinhook Plant Rehab in FY 2020/2021 (Page 267).**

****WRAP-UP REQUEST BY CONQUE** – Provide the cost for total demolition of the Pinhook Plant facility as it relates to line item 79 Pinhook Plant Rehab (Page 267).**

LUS Capital Appropriations

Page 287 & 288 – Vice-Chair Conque requested clarification on the composition of 5027000 89510-0 SPECIAL EQUIPMENT CAPITAL (Page 287) in the amount of \$327,800. CFO Toups identified the items that make up this line item, which are listed as the first five (5) line items on Page 288 and total \$327,800.

LUS Manning Tables

There was no discussion in this section.

► Comments from the Public

No citizens signed in to address the Council.

LUS COMMUNICATIONS (FIBER SERVICES):

(Time: 3:02:12) CFO Toups stated that LUS Communications (Fiber Services) operating budget is estimated at \$38.7 million. She added that there are two (2) additional positions from the current budget year to the proposed budget. Over the past ten (10) years, LUS Fiber has grown by 20 positions, which is due to the growth of the system.

Mr. Huval provided a high-level overview of LUS Fiber, which is now in its 8th year, with financial performance growing stronger each year. He noted recent customer surveys receiving high marks for reliability, quality, and performance. Mr. Huval stated that LUS Fiber is making over \$400,000 of Imputed Tax payments to the City General Fund. He shared that in 2009, LUS Fiber's market share was 0%, but is now above 40% and net revenues are projected to exceed \$10 million for the first time. Mr. Huval explained the various internet speed offerings that are up to 2 Gigabits per second with projected expansion. He provided the financial highlights of LUS Fiber for FY 2016-2017, along with a variety of statistics that demonstrated positive outcomes for LUS Fiber. Mr. Huval noted that LUS Fiber is prohibited from receiving any grants funds or assets from LUS or LCG, but LUS Fiber has actually paid over \$7 million in taxes and fees. In summary, he shared that LUS Fiber has brought in bold, high-level infrastructure to the City of Lafayette, improved electric reliability has been realized, and public safety has improved through associated technologies.

LUS Communications Pro Forma

There was no discussion in this section.

LUS Communications Operating Expenses

There was no discussion in this section.

LUS Communications Five-Year (Multi-Year) Capital

There was no discussion in this section.

LUS Communications Capital

There was no discussion in this section.

LUS Communications Manning Tables

There was no discussion in this section.

► Comments from the Public

No citizens signed in to address the Council.

Vice-Chair Conque invited citizens to attend the Public Hearing for Citizen Input to address any matter related to the proposed budget, which will be held on Tuesday, August 23, 2016 at 5:30 p.m. He declared the conclusion of today's briefing and stated that the next budget briefing will be held on Thursday, August 18, 2016 at 1:00 p.m. for the following Departments: City Court, District Court, Registrar of Voters, Office of Homeland Security & Emergency Preparedness, Assessor, Louisiana Cooperative Extension Service (County Agent), Justices of Peace & Constables, Municipal Civil Service, Fire & Police Civil Service, Coroner, Health Unit, Cajundome, Juvenile Detention, Animal Control, Library, District Attorney, Legal/City Prosecutor, Finance, President's Office, CAO, and Council Office.

There being no further business, the briefing was adjourned at 3:16 p.m.